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FISCAL IMPACT STATEMENT

LS 7742

BILL NUMBER: SB 288

NOTE PREPARED: Jan 3, 2005

BILL AMENDED:

SUBJECT: Inheritance Tax Exemption for Class A Transferees.

FIRST AUTHOR: Sen. Ford

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides a total exemption from the Inheritance Tax for property transferred to lineal descendants and ancestors (Class A transferees) with respect to persons who die after June 30, 2005.

Effective Date: July 1, 2005.

Summary of Net State Impact: Under the bill, Indiana Inheritance Tax revenues will decrease beginning in FY 2007. The bill is expected to increase state General Fund expenditures on county Inheritance Tax replacement. The net state impact of the bill is summarized in the table below.

Inheritance Tax Revenues	Add'l. State Expenditures for County Replacement	Net Increase (Decrease)
(\$48.5 M)	(\$1.3 M)	(\$49.8 M)

Explanation of State Expenditures: The bill could potentially increase expenditures from the state General Fund for county Inheritance Tax replacement by \$1.3 M annually beginning in FY 2007. Necessary replacement funding may vary depending on whether, and by how much, each county's base revenue differs from the amount guaranteed under current statute. (See *Explanation of Local Revenues*, below, for an explanation of county revenue loss and replacement procedures.)

Explanation of State Revenues: *Summary:* The bill is estimated to reduce Inheritance Tax revenue by approximately \$48.5 M annually beginning in FY 2007.

Background: Under the bill, transfers to Class A beneficiaries would be exempt from the Inheritance Tax. The change would apply to transfers from persons who die after June 30, 2005. Since the Inheritance Tax must be paid within 12 months after the decedent's death (within 9 months to receive the 5 percent early payment discount), the bulk of the impact of the exemption would not be experienced until FY 2007.

The estimated impact of this change is based on the Office of Fiscal and Management Analysis (OFMA) Inheritance Tax database and the Revenue Technical Committee's FY 2007 forecast (published December 14, 2004). The forecast estimates FY 2007 Inheritance Tax at \$120.0 M. The estimated revenue loss assumes that Inheritance Tax revenues would remain relatively constant after FY 2007 absent the exemption. The Inheritance Tax database is comprised of about 209,000 records of transferees receiving assets from a decedent who died between July 1, 1997, and September 30, 2003. Annual sample totals suggest that Class A transferees account for about 40.4% of annual Inheritance Tax revenue (about \$48.5 M of the forecast amount). About 99.4% of total Inheritance Tax collections are from Indiana residents. Since counties retain 8% of resident Inheritance Tax, county collections from Class A transferees are estimated to be about \$4.2 M annually.

Explanation of Local Expenditures:

Explanation of Local Revenues: The bill exempts Class A transferees from the Inheritance Tax. Since the decrease in revenue will likely be larger than the county guarantee payments made by the state, counties will likely experience a net revenue loss of approximately \$2.9 M beginning in FY 2007. The net impact is summarized in the table below.

	Annual Impact Beginning in FY 2006
County Share of Inheritance Tax Revenues (Decrease)	(\$4.2 M)
State Expenditures for County Replacement	1.3 M
Net Increase (Decrease)	(2.9 M)

Counties retain 8% of the Inheritance Tax collected on transfers made by Indiana residents. Counties are guaranteed a statutorily determined amount as determined by the replacement provision established by P.L. 254-1997. The replacement provision was established to replace county Inheritance Tax revenue lost when the Class A exemption was increased on July 1, 1997. The replacement provision guarantees that each county receives Inheritance Tax revenue equal to the five-year annual average amount of Inheritance Tax received by that county from FY 1991 to FY 1997 excluding the highest and lowest years. The bill is estimated to reduce Inheritance Tax revenue to counties by about \$4.2 M annually. However, the reductions in county Inheritance Tax are expected to trigger additional Inheritance Tax replacement payments from the state General Fund totaling about \$1.3 M annually. Both of these impacts would begin in FY 2007.

Currently, most counties retain more in Inheritance Tax revenues than is guaranteed under the replacement procedure. From FY 2000 to FY 2003, counties exceeded their guarantee amounts by an average of \$4.7 M annually with shortages subject to replacement averaging about \$200,000 per year. The total annual guarantee to counties is \$7.4 M. As a result, some reductions in county revenue exceeding the guarantee amount will not be replaced by the state.

A copy of the spreadsheet showing the amount of Inheritance Tax replacement guaranteed to each county under P.L. 254-1997 is available from the Office of Fiscal and Management Analysis.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties.

Information Sources: State Revenue Forecast (December 14, 2004); OFMA Inheritance Tax database.

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